

The Presidential Address

Economic Growth and Development: New Directions

RASHID AMJAD

Finance Minister, Dr Abdul Hafeez Sheikh, Dr Nadeem Ul Haque, Patron of the Pakistan Society of Development Economists and Deputy Chairman Planning Commission, Past Presidents and Distinguished Members of the Society, Excellencies, Ladies and Gentlemen:

It is my pleasure to welcome you all to the 27th Annual General Meeting and Conference of the Pakistan Society of Development Economists.

On behalf of the members of the PSDE, I would like to thank you, Finance Minister for having spared your precious time to open this important meeting. I would like also to especially thank our members and guests who have come from different parts of the country and from different continents to participate in the Conference. We are extremely pleased to see here today many young students of Economics and Development—Pakistan's future economists and development specialists—who I am sure are enthusiastic to learn from the many leading economists attending this Conference of the critical issues and economic challenges that we face at the national, regional and global levels.

Let me join Dr Muslehud Din in welcoming Professor Ashwani Saith, Professor of Economics at the International Institute of Social Studies, The Hague and former Professor of Development Studies at the London School of Economics, who will be delivering the Mahbub Ul Haq Memorial Lecture; Professor Asim Ijaz Khwaja, Professor, Kennedy School, Harvard University who will be delivering the Gustav Ranis Lecture; Dr Jomo Kwame Sundaram, Assistant Secretary General, United Nations and former Visiting Professor, Harvard University, who will deliver the Allama Iqbal Lecture; and Dr Atif Mian, Associate Professor, University of California, who will be delivering the Quaid-i-Azam Lecture this year. We are also very pleased to have with us Dr Gerardo della Paolera, President of the Global Development Network (GDN) who will be participating in a panel discussion on economic reforms and competitiveness as well as presiding over the Mahbub Ul Haq Memorial Lecture. Dr Paolera, we are sure

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that this visit of yours to Pakistan will help to strengthen links between the Global Development Network and its many members in Pakistan as well as with other economic institutes participating in this Conference.

In addition, we are very happy that PSDE will be hosting at this Conference together with the International Growth Center (IGC), jointly run by the University of Oxford and London School of Economics, an invited lecture by Dr Surjit Bhalla, an eminent economist who has formerly worked at the World Bank.

I am also very happy to announce that in continuation of the tradition started last year by the Pakistan Society of Development Economists (PSDE), the Society will be honouring this year Dr Parvez Hasan, former World Bank Chief Economist, Asia Region, and former Chief Economist, West Pakistan whose writings on East Asia's economic performance and on the Pakistan Economy and broader development issues are well known to all of us.

Ladies and Gentlemen, the theme of this year's Conference: "*Economic Growth and Development: New Directions*" was sparked by the adoption by the National Economic Council earlier this year the Planning Commission's New Growth Framework for Pakistan. This framework spells out urgent major economic and institutional reforms that need to be taken, as well as identifies future drivers of economic growth which must be harnessed, if Pakistan is to move decisively towards a higher growth trajectory—nearer 7 to 8 percent—from the average of around 5 percent in the last sixty years.

But clearly as we see from the world around us it is not just the Pakistan economy which seeks new directions and a new paradigm for growth and development. The recent global financial meltdown and ensuing deep recession and the current impasse in development economics calls for fresh thinking and new ideas.

The global financial crisis, sparked by the sub-prime mortgage crisis in a small state in the United States, engulfed financial institutions and markets throughout the world as these toxic assets permeated seamlessly undetected through the global financial system. This made it difficult to distinguish which financial portfolios were contaminated and which were not and resulted in unprecedented defaults by major global financial players. It has now spread from the financial to the real economy resulting in a collapse of economic growth and a steep rise in unemployment.

The public reaction to this crisis was also unprecedented. "Occupy Wall Street" became not just a slogan but a movement that questioned the market driven capitalistic system itself and the unflinching pursuit of "greed" that seem to be its driving force. There was growing outrage at the huge bonuses handed out to what are now termed as the 1 percent (in fact 0.1 percent) who took so called "risks", but as it turned out that these "risks" were not difficult to take, as these were at the expense of ordinary people's assets who lost out when these "risks" failed to mature.

This societal crisis which questions the very fundamentals of the market driven system and indeed the very roots of the capitalism itself will be reflected on by Prof. Ashwani Saith in the Mahbub ul Haq lecture today. I am sure it will spark a lively debate.

The impact of the financial crisis on the Western industrialised economies has not yet run its course as can be seen by the continuing saga of the "Euro". In the United States markets appear to be calmer but a lack of a political consensus on how to manage the national debt still makes for the possibility of a double-dip recession.

But let us now turn to the economic challenges that we face on our own doorsteps.

Ladies and Gentlemen,

Let me first reiterate that Pakistan's best-kept secret is its "resilient economy" which has managed to improve, though modestly, the standards of living of the vast majority of its people over the last sixty years. Over this period, it has grown at a respectable average growth rate of 5 percent and managed a per capita growth of around two and a half percent. Pakistan's economy has more than once proven its critics of doom and gloom wrong and has repeatedly shown its capacity to bounce back after being subjected to economic shocks or natural disasters.

A "resilient economy" growing at an average rate of 5 percent over many decades would even till recent years been viewed as satisfactory if not praiseworthy. But measures of economic growth performance have now changed drastically.

First, has been the unprecedented growth of nearer 8 to 9 percent achieved by the East Asian economies, followed by China and more recently, by India. Judged by the performance of these economies, Pakistan's growth performance appears almost anaemic and lacklustre. In a highly competitive global economy, to keep pace with your competitors, you too must grow as fast as them to attract high levels of investment, adoption of new technology, innovation and productivity growth, for these provide the competitive edge in global markets.

Second, given its very high population growth, Pakistan's labour force is growing at an unprecedented rate of around 3.5 percent. Based on historical employment elasticity estimates (which new capital-intensive technologies are further reducing) Pakistan must grow nearer 8 to 9 percent if it is to absorb this high growth of labour force. Otherwise resulting high unemployment and frustrated youth can threaten the entire socio-economic edifice as we have witnessed in the recent "Arab Spring". The dynamics of job creation as an interaction between households and aggregate demand is the theme of Prof. Atif Mian's Quaid-i-Azam Lecture.

Thirdly, while the global economic recession was successfully deflected by most South Asian economies, Pakistan's vulnerable macroeconomic situation severely limited its capacity to adjust and was therefore badly hit. Today, Pakistan finds itself in the midst of a deep stagflation with unprecedented low economic growth rates and double digit inflation, even if we remain somewhat hopeful that the economy will show some improvement during this 2011-12 fiscal year.

These important developments and current economic situation has forced us to rethink our fundamental economic paradigm which has driven economic growth in the past and which is now showing to be running out of steam.

The new directions and reforms the Pakistan economy must take to break out of its current stagflation and move to a higher, sustainable and inclusive growth path is clearly the most pressing challenge that economists must address and therefore has been chosen as the topic for this Conference.

Let me spell out very briefly some of the key issues which I feel are critical if Pakistan is indeed to move to a higher and sustainable growth path.

First and foremost Pakistan must take advantage of the demographic dividend which we are witnessing today and which will run till the early 2040s. This "youth bulge"

with 60 percent of the population under twenty five years, offers enormous opportunities in a world with an aging population. But unless we slow down our current growth rate of population this dividend will not only be sharply weakened but as I have said earlier result in rising unemployment and simmering frustration. Slowing down population growth and ensuring rapid and higher growth to absorb the labour force must therefore be given the highest priority.

Second, we must refurbish the Indus Water Irrigation System, the largest in the world—the strong heart of the country’s economy—if we are to take advantage of the secular change in the international terms of trade in favour of food grains and commodities. These shifts, which are not just cyclical, make agriculture (both farm products and livestock) more profitable and offer enormous opportunity to bring prosperity to our people, especially the majority living in rural areas. Sadly, this irrigation system has been neglected and run down and needs not just resources to refurbish but institutional reforms and competent management to run efficiently.

Thirdly, Pakistan’s Achilles heel remains its low growth rate of exports in relation to its import needs resulting in frequent balance of payment crisis and recurring stop-go cycles. To be competitive in global markets we must possess economically efficient and globally competitive firms and industries. This cannot be done on the basis of continuing subsidies and high and unending protection to even some of our oldest industries (e.g. textiles). A carefully phased out tariff reform must replace the existing jungle of vested interest driven protection, (though SROs) which is sapping our competitive strength.

Fourthly, we must in the face of continuing global uncertainty and lack of progress on the WTO Doha Round do what fast growing regions like ASEAN have done and open up regional trade amongst SAARC countries and most importantly with India. This will provide a much needed boost to economic growth and trade in the region. It is heartening to see that careful but decisive steps like the granting of MFN status to India are in the pipeline.

Fifth, we need to give the highest priority to protecting our environment especially give the increasing proof of being amongst those countries to be badly hit by climate change. As Anatolov Levine in his book “Pakistan a Hard Country” convincingly argues Pakistan’s future is not threatened as much as by the current insurgency in some parts of the country as it will be by climate change. If this rising threat is not countered by a well mapped out strategy climate change will eventually dry out the Indus Basin River System which is the heart of Pakistan’s economy. We look forward to hearing our distinguished speaker Dr Jomo Kwame Sundaram on this topic in a global context.

Sixth, we must invest in our people and impart quality education at all levels which is still woefully inadequate both in terms of resources allocated and quality imparted. The cutting competitive edge in global markets is increasingly based on human capital or the education and skill levels of its work force which above all drives entrepreneurship and innovation. This is a subject which Dr Asim Khwaja will deal within in the Gustav Ranis Lecture tomorrow.

Seventh, and last I strongly believe that we should call a spade a spade and attack corruption at the highest levels rather than continue to take refuge under this wooly concept of “good governance”.

I thank you all for your patient hearing.